

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

FEBRUARY 2003

HIGHLIGHTS

Snapshot Maryland

Maryland's economic recovery is beginning to take hold. After returning to positive job growth territory in November, the state's job growth rate improved to 0.34 percent in December. The state's job growth ranking improved from 18th to 13th in the nation. The U.S. economy continues to struggle — registering a job growth rate of -0.19 percent in December 2002. Maryland appears to have weathered the storm of the national recession better than most other states, emerging from a year-long recession in November 2002 with a positive job growth rate and a strong ranking among other states.

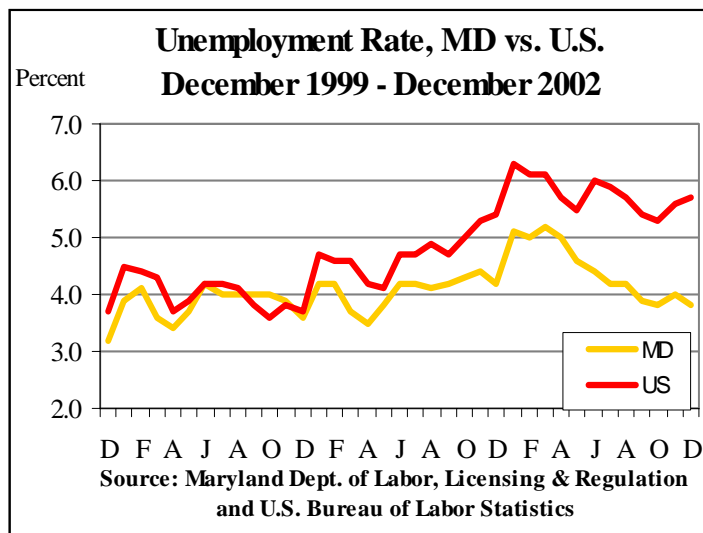
Maryland's job growth returned to positive territory on the strength of construction, health services and federal government employment. In addition, business services returned to positive territory, while the rate of job losses remained about the same in manufacturing. Business services and manufacturing have been the hardest-hit sectors of the economy.

Between November 2001 and October 2002, Maryland registered negative job growth. The United States already has recorded 16 months of negative job growth — from September 2001 to December 2002. The state's unemployment rate (not seasonally adjusted) fell to 3.8 percent in December, compared with a national average of 5.7 percent. Maryland's unemployment rate fell over the year, while the national average rose slightly.

Seasonally adjusted data also show that Maryland is outperforming the nation. While the

Labor Market Trends, December 2002 (Percent Change, December 2001 - December 2002)

	MD	U.S.
Growth of Civilian Labor Force	1.5	0.5
Employment by Place of Residence	1.9	0.2
Job Growth (by place of work)	0.3	-0.2
Temporary Cash Assistance – Caseload	-2.6	–
Change in Initial UI Claims	-2.1	8.6
Help-wanted Counts	-22.8	–
Unemployment Rate (current month, %)	3.8	5.7



national unemployment rate edged up from 5.8 percent a year ago — to 6.0 percent in December 2002 — Maryland's unemployment rate fell from 4.4 percent to 4.1 percent.

Maryland also outpaced its neighbors — all of which registered job losses over the past year. Job growth rates for Maryland's neighboring states in December 2002

Maryland's Recovery Takes Hold

In December, the state's job growth rate improved to 0.3 percent from 0.1, while the job growth ranking improved to 13th from 18th in the nation.

Personal Income Growth Improves

Maryland's personal income grew at a rate of 4.3 percent in the third quarter of 2002, compared with a U.S. average growth rate of 3.3 percent (see *Focus* article).

Maryland Leads in R&D Intensity

The state ranked 4th in the nation in R&D intensity. The challenge is to improve the rate of commercialization (see *Focus* article).

U.S. Employment Still Falling

The U.S. job growth rate remained negative in December. Economic and political uncertainties continue to hamper the recovery.

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Aris Melissaratos
Secretary

Vernon Thompson
Deputy Secretary

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Jobs and Sectors

Entering 2003, the national economy is beset by many uncertainties — the nature and extent of the stimulus package and its effect on Maryland, the growing political uncertainty in the Middle East, rising oil prices, low business confidence

Percent Change in Jobs December 2001 - December 2002

	MD	U.S.
Construction	6.9	-1.2
Manufacturing	-3.5	-3.6
FIRE	-0.5	0.9
TCU	-3.5	-2.7
Trade	-1.1	-0.8
Services	1.3	1.4
Business	0.2	0.2
Health	2.4	2.4
Government	0.8	1.2
Total	0.3	-0.2

and fragile consumer confidence. The national recovery — if it may still be called such — remains tentative and weak. In fact, by the jobs measure, the nation's economy is still in a recession. From December 2001 to December 2002, the U.S. economy lost 246,000 jobs. While Maryland registered a second month of job growth, most other

states, including Maryland's neighbors, are experiencing job losses.

The manufacturing sector remains weak based on job counts. From December 2001 to December 2002, this sector lost 3.5 percent of its job base in Maryland and 3.6 percent in the U.S. Manufacturing hours and earnings remain strong, however. Average weekly hours rose to 41.3 in Maryland and 41.5 in the U.S. Earning growth was very strong due to rising productivity and overtime hours. As manufacturing orders rise, firms are continuing to meet additional demand through overtime and process improvements rather than new hires.

Another sector that remains weak is the transportation, communications and utilities (TCU) sector both nationally and

in Maryland. During the past year, this sector registered a job loss of 3.5 percent in Maryland and a decline of 2.7 percent in the U.S. The trade sector — both wholesale and retail — also lost jobs during the past year. Retail sales were weak in December, and retailers added very few jobs during the last holiday season.

Construction is now the biggest driver of Maryland's recovery. Jobs in this sector jumped 6.9 percent from December 2001 to December 2002 — an addition of 10,900 jobs. Construction employment fell nationally at a rate of 1.2 percent, losing 81,000 jobs.

Maryland's services sector has made a good turnaround, with a growth rate of 1.3 percent between December 2001 and December 2002 — a gain of 10,900 jobs. Health services added 5,000 net new jobs in December — a gain of 2.4 percent. Business services finally snapped a long string of job losses, by adding 300 jobs during the past year — a gain of 0.2 percent. The government sector added 3,900 jobs during the past year — up 0.8 percent.

The housing sector remains a strong driver of economic activity, both in Maryland and in the U.S. Existing home sales increased by 8.9 percent in Maryland and 12.1 percent in the U.S. Permits for new residential units — which signal future home construction activity — rose a strong 8.4 percent in Maryland and 21 percent in the U.S.

Passenger volume at Baltimore/Washington International Airport rose by nearly 5 percent in December. Cargo volume at BWI was up 9 percent in December, but has slowed since early 2002.

Tourism data were mixed. Hotel/motel occupancy rates increased modestly in December (up 0.7 percent), but state welcome center visitor volume was down 8.5 percent. Amusement and admission tax receipts were down almost 4 percent, while hotel/motel tax revenues were up 4.9 percent.

Other Economic Indicators

- Maryland recorded a second month of job growth in December, measured as a percent change from the same month a year ago.
- The state improved its job growth ranking to 13th in December from 18th in November. This is a remarkable turnaround for a state that ranked 46th in job growth in July.
- A large number of states continue to lose jobs, with nine

states registering job loss rates of 1.0 percent or higher during December.

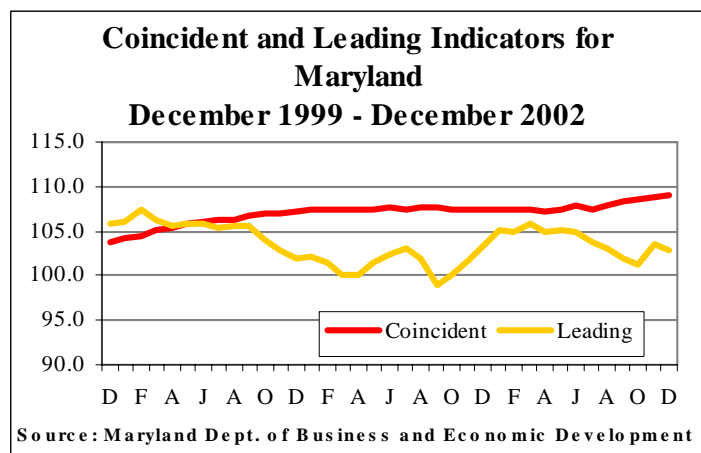
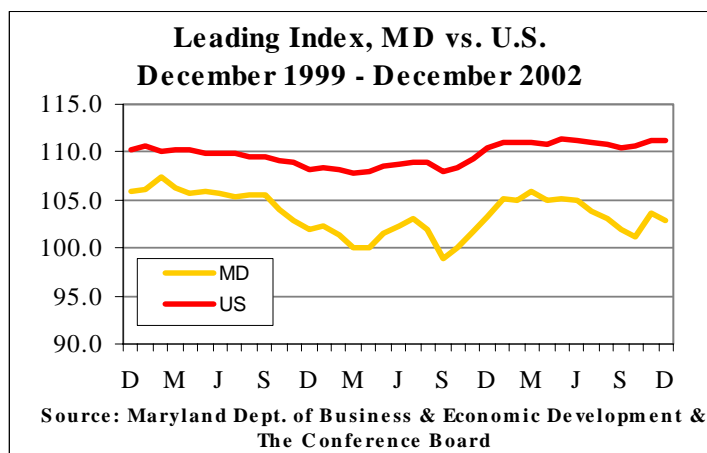
- Initial claims for unemployment insurance fell modestly in December (down 2.1%).
- The *Baltimore Sun's* help-wanted counts fell in December, mirroring weaker than expected holiday season hiring.

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Maryland Leading and Coincident Indices

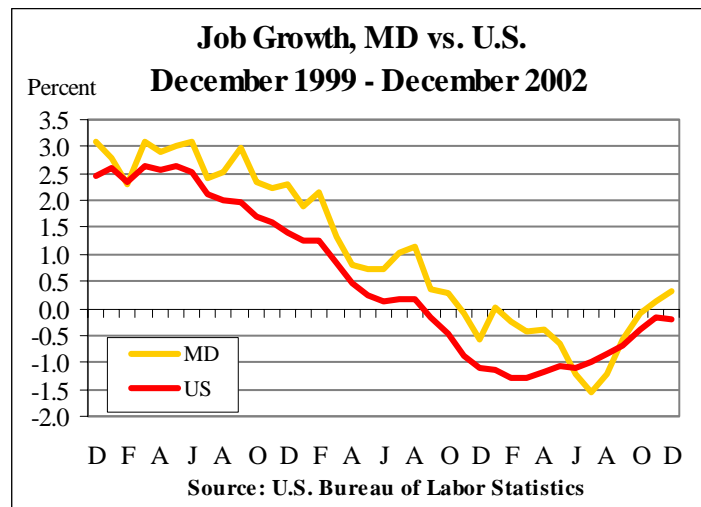
The Maryland index of *leading indicators* fell in December, down to 102.8 from 103.6, after rising sharply in the previous month. The leading index was also down by 0.5 percent from a year ago. Five out of the seven Maryland components caused a negative impact in December, with the largest contributors being help-wanted counts and initial claims for unemployment insurance. Consumer confidence was the only one of the three national components that yielded a negative impact. The Maryland indicator continues to fluctuate and does not provide a clear signal as to the direction of the state's economy. The U.S. leading index was up by 0.1 percent in December from the previous month, posting a third consecutive monthly increase. The U.S. index was also up by 0.7 percent from a year ago. The U.S. economy continues to struggle through a weak recovery.

The revised *coincident index* stood at 109.1 in December, up from 108.8 the previous month. The indicator was also up 1.5 percent from a year ago. The updated index includes recent revisions to personal income data. The index has now increased for five consecutive months. The volatility in the Maryland leading index, however, is not providing a clear signal as to the direction of the economy. With this in mind, the outlook for the coincident indicator is somewhat tentative. The U.S. coincident indicator was unchanged in December but was up 0.7 percent from the same period a year ago. On a month-to-month basis, the U.S. index has not shown any improvement recently. The coincident indicator data appear to suggest that the Maryland economy is improving somewhat faster than the U.S. economy at this point. Economic activity for the U.S. is very tentative.



Economic Indicators (continued from page 2)

- Hours and earnings in manufacturing industries remain strong. These are not yet translating into job gains, however, as firms are reluctant to make long-term employment commitments and investments until the recovery takes hold.
- The Maryland stock index fell 13 percent in December, compared with a 23 percent drop in the national index.
- The number of new residential permits issued in Maryland rose strongly in December.
- Existing home sales rose in December, after being essentially flat in November.
- 2002 was, overall, a strong year for car sales, although December registrations fell slightly.



FOCUS: Research and Development Update

A recent report on research and development (R&D) expenditures from the National Science Foundation indicated that Maryland ranked 10th in overall R&D spending. The R&D data was based on the type of performer (the sector that does the work, as opposed to the source of funds) and included the federal government, industry, universities and colleges, federally funded research and development centers and non-profit organizations. In 2000, U.S. R&D expenditures totaled \$265 billion, of which \$247 billion could be attributed to expenditures within individual states, with the remainder falling under an undistributed category. Industry was the largest R&D performer, accounting for about 77 percent of the distributed total.

In total R&D spending by state, expenditures were concentrated in a small number of states, with the top 10 states

accounting for about two-thirds of the \$247 billion in R&D expenditures. In 2000, Maryland ranked 10th in the nation, with \$8.6 billion in total expenditures. R&D spending is on an absolute basis and does not account for variations in the level of R&D expenditures that may reflect differences in the size of the economy. That is, state economies vary in size due, in part, to differences in population, natural resources and land area. Indeed, the top ranked states in R&D spending are mainly large states in population and gross state product.

Thus, an alternative way of comparing R&D expenditures by state is to look at spending in relation to the size of the state's economy, as measured by the gross state product (GSP). This ratio of R&D spending to GSP is referred to as "R&D intensity" or "concentration." Adjusting for the size

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Snapshot Maryland (continued from page 1)

were: Delaware, -2.16; the District of Columbia, -0.09; Pennsylvania, -0.60; Virginia, -0.30; and West Virginia, -1.03.

Maryland currently ranks 13th in job growth in the nation, ahead of all its neighbors. The job growth rankings for December 2002 were: Maryland, 13th; Delaware, 51st; the District of Columbia, 23rd; Pennsylvania, 39th; Virginia, 30th; and West Virginia, 43rd.

Maryland's labor force grew 1.5 percent and employment by place of residence grew an impressive 1.9 percent between December 2001 and December 2002. The state's unemployment rate dropped from 4.2 percent a year ago to 3.8

Regional Job Growth Rate and Rank December 2002

(Job Growth Rate - Percent Change from Year Ago)

Area	Rate	Rank
MD	0.3	13
DE	-2.2	51
DC	-0.1	23
NJ	-0.3	31
NC	-0.1	24
PA	-0.6	39
VA	-0.3	30
WV	-1.0	43
US	-0.2	-

Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

Month	MD	US
Dec-01	-0.6	-1.1
Jan-02	0.0	-1.1
Feb-02	-0.2	-1.3
Mar-02	-0.4	-1.3
Apr-02	-0.4	-1.2
May-02	-0.7	-1.1
Jun-02	-1.2	-1.1
Jul-02	-1.6	-1.0
Aug-02	-1.2	-0.8
Sep-02	-0.6	-0.7
Oct-02	-0.1	-0.4
Nov-02	0.1	-0.2
Dec-02	0.3	-0.2

percent this past December. By contrast, the U.S. labor force grew 0.5 percent, while employment grew only 0.2 percent from December 2001 to December 2002. As a result of the slower growth in employment, the nation's unemployment rate rose from 5.4 to 5.7 percent. Other labor market indicators sent mixed signals. Initial claims for unemployment insurance fell 2.1 percent in December, while the Baltimore Sun's help-wanted counts fell significantly, indicating a slower hiring season during the 2002 holiday season.

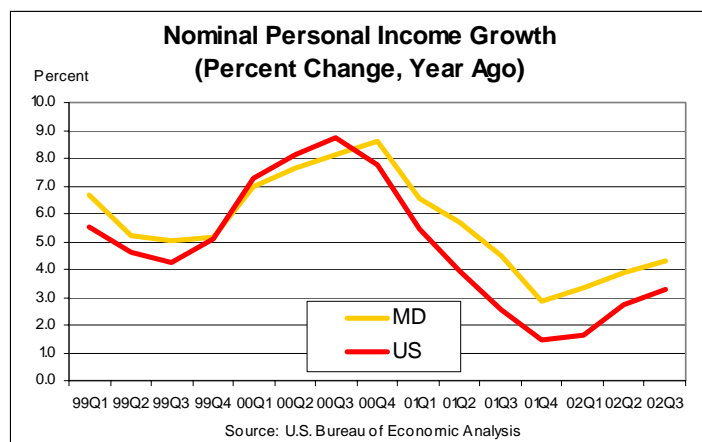
FOCUS: Personal Income Update

Personal income growth bottomed out in the fourth quarter of 2001 and has exhibited steady improvement since then. In the last quarter of 2001, the nation's personal income grew only 1.4 percent from the same period a year ago. By third quarter 2002, growth improved to 3.3 percent. Maryland also experienced a similar trend but has displayed stronger growth over the past two years. In the last quarter of 2001, Maryland's personal income growth had slowed to 2.8 percent. Growth has improved since then, rising to 4.3 percent by third quarter 2002 (the latest data available).

Estimates for third quarter 2002 from the Bureau of Economic Analysis show that Maryland ranked 10th overall in personal income growth (4.3 percent). Most of the faster growing states have smaller populations than Maryland. The top nine states with the fastest growth in third quarter 2002 were: Nebraska, 5.2 percent; Wyoming, 5.2 percent; New Mexico, 4.8 percent; Florida, 4.8 percent; Maine, 4.7 percent; Hawaii, 4.7 percent; Kansas, 4.5 percent; Alaska, 4.5 percent; and the District of Columbia, 4.4 percent. New York, Connecticut and Colorado reported the slowest increases at 1.9 percent. Regionally, Maryland outperformed its neighboring states: Pennsylvania, 3.8 percent; Virginia,

3.5 percent; West Virginia, 3.3 percent; and Delaware, 3.0 percent.

Finance, insurance and real estate; construction; services; and government were the major contributors by industry to personal income growth in Maryland. In third quarter 2002, these sectors experienced growth rates of 7.7 percent, 6.4 percent, 5.0 percent and 6.7 percent, respectively. Income fell in manufacturing and in the transportation, communications and utilities sector.



FOCUS: R&D Update (continued from page 4)

of the economy, *Maryland ranked 4th in 2000*, with an R&D intensity of 4.6 percent. At the top of the list was Michigan, with an R&D intensity of 5.8 percent. The R&D intensity for the nation was 2.7 percent.

Maryland was at the top of the list for federal-performed R&D, but was not among the top ten states with respect to industry-performed R&D. In contrast, the leading states in total R&D tended to be among the leaders in terms of R&D performance by industry. The state's heavy dependence on

research performed by federal agencies makes the state much more sensitive to changes in federal spending. While this federal research activity provides a significant boost to R&D spending in Maryland, the commercialization of research efforts also needs to be addressed for the state to capitalize on this research activity.

Seasonal Adjustments to Unemployment Rates

The state's not seasonally adjusted (NSA) unemployment rate declined from 4.2 percent a year ago to 3.8 percent this December. The nation's NSA rate, on the other hand, increased from 5.4 to 5.7 percent. Maryland's seasonally adjusted (SA) unemployment rate also fell — from 4.4 percent to 4.1 percent — while the U.S. rate went up from 5.8 to 6.0 percent. Both data sets show that the gap between Maryland's and U.S. unemployment rates remains wide.

Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Dec 2002	3.8	5.7	4.1	6.0
Nov 2002	4.0	5.6	4.1	5.9
Dec 2001	4.2	5.4	4.4	5.8

Source: U.S. Bureau of Labor Statistics

Selected Monthly Economic Indicators

	Maryland					U.S.				
	Percent Change			Percent Change		Percent Change			Percent Change	
	Dec	Nov	From Last	Dec	From Last	Dec	Nov	From Last	Dec	From Last
Selected Indicators	2002	2002	Month	2001	Year	2002	2002	Month	2001	Year
Labor Market										
Labor Force (U.S. in Thousands)	2,878,918	2,908,759	-1.0	2,835,289	1.5	144,807	144,854	0.0	144,042	0.5
Employment (U.S. in Thousands)	2,770,357	2,793,394	-0.8	2,717,469	1.9	136,599	136,684	-0.1	136,269	0.2
Unemployment Rate	3.8	4.0	-5.0	4.2	-9.5	5.7	5.6	1.8	5.4	5.6
Sun Help-Wanted Counts, Baltimore MSA	9,728	13,653	-28.7	12,594	-22.8					
Initial Claims for Unemployment Insurance	31,566	20,613	53.1	32,254	-2.1	2,442,692	1,691,799	44.4	2,249,511	8.6
TCA Caseload	29,526	29,263	0.9	30,326	-2.6					
TCA Cases Closed	2,760	2,990	-7.7	2,612	5.7					
Jobs and Sectors										
Total Non-Agricultural Employment (Thousands)	2,503.8	2,497.0	0.3	2,495.4	0.3	131,457	131,850	-0.3	131,703	-0.2
Construction (Thousands)	169.6	170.5	-0.5	158.7	6.9	6,451	6,649	-3.0	6,532	-1.2
Manufacturing (Thousands)	169.9	170.6	-0.4	176.0	-3.5	16,477	16,560	-0.5	17,087	-3.6
FIRE (Thousands)	142.7	141.7	0.7	143.4	-0.5	7,808	7,796	0.2	7,735	0.9
TCU (Thousands)	114.6	112.5	1.9	118.7	-3.5	6,734	6,759	-0.4	6,918	-2.7
Trade (Thousands)	558.7	553.0	1.0	565.0	-1.1	30,437	30,276	0.5	30,683	-0.8
Services (Thousands)	872.6	870.1	0.3	861.7	1.3	41,293	41,432	-0.3	40,730	1.4
Business (Thousands)	199.1	193.9	2.7	198.8	0.2	9,345	9,417	-0.8	9,326	0.2
Health (Thousands)	210.6	210.6	0.0	205.6	2.4	10,802	10,791	0.1	10,545	2.4
Government (Thousands)	474.1	477.0	-0.6	470.2	0.8	21,706	21,824	-0.5	21,456	1.2
Average Weekly Earnings (\$)	690.95	683.06	1.2	650.72	6.2	646.57	633.13	2.1	625.00	3.5
Average Weekly Hours	41.3	41.0	0.7	40.9	1.0	41.5	40.9	1.5	41.2	0.7
Business and Consumer Markets										
BWI Cargo (Metric Tons)	20,841	19,306	7.9	19,115	9.0					
BWI Passengers (Millions)	1.51	1.43	5.6	1.44	4.7					
Electric Meters Installed, Commercial	113	151	-25.2	137	-17.5					
Electric Meters Installed, Residential	909	1,156	-21.4	764	19.0					
Electricity Sales, Commercial (Millions of kWh)	1.61	1.47	9.9	1.44	12.1					
Electricity Sales, Residential (Millions of kWh)	1.28	1.00	28.3	0.99	28.8					
Existing Home Sales (U.S. in Thousands)	6,731	6,339	6.2	6,181	8.9	453	428	5.8	404	12.1
New Auto Registration	26,994	27,812	-2.9	28,222	-4.4	1,234,898	1,154,980	6.9	1,374,333	-10.1
New Residential Permits Authorized	2,023	2,105	-3.9	1,867	8.4	132,716	124,513	6.6	109,792	20.9
Indexes										
Leading Index	102.8	103.6	-0.7	103.3	-0.5	111.3	111.2	0.1	110.5	0.7
Help-Wanted Index	43.4	60.9	-28.7	56.2	-22.8	39	40	-2.5	47	-17.0
CPI	N/A	114.0	N/A	N/A	N/A	180.9	181.3	-0.2	176.7	2.4
Stock Index	187.7	191.7	-2.1	215.0	-12.7	879.8	936.3	-6.0	1,148.1	-23.4
Tourism										
Hotel/ Motel Occupancy Rate (%)	43.6	56.6	-23.0	43.3	0.7					
State Welcome Center Visitors	123,509	145,000	-14.8	134,917	-8.5					
Amusement & Admission Tax (Millions of Dollars)	2.92	3.40	-14.2	3.04	-3.8					
Hotel/Motel Sales Tax (Millions of Dollars)	3.51	3.93	-10.6	3.34	4.9					

Notes:



Robert L. Ehrlich, Jr., Governor
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